

**REPORT OF THE AUDIT OF THE  
FORMER CLARK COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE FORMER**  
**CLARK COUNTY SHERIFF**

**For The Year Ended**  
**December 31, 2006**

The Auditor of Public Accounts has completed the former Clark County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

Excess fees decreased by \$17,196 from the prior year, resulting in excess fees of \$15,745 as of December 31, 2006. Revenues decreased by \$76,156 from the prior year and expenditures decreased by \$58,960.

**Report Comment:**

The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

**Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Henry Branham, Clark County Judge/Executive  
The Honorable Ray E. Caudill, Former Clark County Sheriff  
The Honorable Berl Purdue, Jr., Clark County Sheriff  
Members of the Clark County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Clark County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2008 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Henry Branham, Clark County Judge/Executive  
The Honorable Ray E. Caudill, Former Clark County Sheriff  
The Honorable Berl Purdue, Jr., Clark County Sheriff  
Members of the Clark County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

This report is intended solely for the information and use of the former Sheriff and Fiscal Court of Clark County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

January 18, 2008



CLARK COUNTY  
RAY E. CAUDILL, FORMER SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Grants		\$	7,631
State - Kentucky Law Enforcement Foundation Program Fund			38,237
State Fees For Services:			
Finance and Administration Cabinet	\$	110,737	
Cabinet For Health and Family Services		<u>1,810</u>	112,547
Circuit Court Clerk:			
Fines and Fees Collected			9,823
Fiscal Court			81,685
County Clerk - Delinquent Taxes			2,322
Commission On Taxes Collected			425,029
Fees Collected For Services:			
Auto Inspections		10,303	
Accident and Police Reports		369	
Serving Papers		40,772	
Carrying Concealed Deadly Weapon Permits		<u>15,275</u>	66,719
Other:			
Transport Prisoners		3,111	
Add-On Fees		52,559	
Miscellaneous		<u>6,820</u>	62,490
Interest Earned			18,119
Borrowed Money:			
State Advancement		200,000	
Bank Note		<u>59,608</u>	259,608
Total Revenues			<u>1,084,210</u>

The accompanying notes are an integral part of this financial statement.

CLARK COUNTY  
 RAY E. CAUDILL, FORMER SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2006  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 529,608

Employee Benefits-

Employer's Share Social Security 43,376

Employer's Share Retirement 8,026

Contracted Services-

Advertising 366

Fiscal Court Filing Fees 9,450

Vehicle Maintenance and Repairs 18,985

Materials and Supplies-

Office Materials and Supplies 23,618

Uniforms 5,154

Law Enforcement Supplies 15,852

Auto Expense-

Gasoline 48,568

Other Charges-

Conventions and Travel 300

Dues 1,376

Postage 7,196

Training Expenses 1,039

Bond 487

Carrying Concealed Deadly Weapon Permits 10,195

Transporting Prisoners 69

Miscellaneous 1,506

Capital Outlay-

Office Equipment 3,283 \$ 728,454

Debt Service:

State Advancement 200,000

Notes 59,608

Interest 1,156 260,764

Total Expenditures

989,218

Net Revenues

94,992

Less: Statutory Maximum

79,247

Balance Due Fiscal Court at Completion of Audit

\$ 15,745

The accompanying notes are an integral part of this financial statement.

CLARK COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CLARK COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent for the first six months and 28.21 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CLARK COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 4. Special Accounts

A. Interdiction Account

The Clark County Sheriff's Interdiction Account had a balance of \$7,054 on January 1, 2006. Receipts during the year were \$100 in forfeited funds and \$96 in interest earned. \$5,811 was expended during the year for supplies. The balance of this account as of December 31, 2006, was \$1,439.

B. COPS Grant Account

The Clark County Sheriff's COPS Grant account had a balance of \$59,498 on January 1, 2006. Receipts during the year were \$72 in interest earned. \$59,328 was expended for equipment during the year. The balance of this account as of December 31, 2006, was \$242.

C. DARE Account

The Clark County Sheriff's DARE account had a balance of \$2,290 on January 1, 2006. Receipts during the year were \$2,232 and expenses were \$2,091. The balance of this account as of December 31, 2006, was \$2,431.

The balances remaining in these special accounts were transferred to the incoming Sheriff.

Note 5. State Grant

The former Sheriff received \$7,631 during 2006 under the Highway and Safety Grant program. This money was used to compensate deputies for overtime and holiday pay.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Henry Branham, Clark County Judge/Executive  
The Honorable Ray E. Caudill, Former Clark County Sheriff  
The Honorable Berl Purdue, Jr., Clark County Sheriff  
Members of the Clark County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Clark County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated January 18, 2008. The former Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Clark County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Clark County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Clark County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Clark County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Clark County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

January 18, 2008

COMMENT AND RECOMMENDATION



CLARK COUNTY  
RAY E. CAUDILL, SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2006

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

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The former Sheriff's office lacked adequate segregation of duties over receipts and disbursements. The former Sheriff's bookkeeper prepared daily checkout sheets, posted collection totals to the receipts ledger, prepared deposits, and reconciled the bank account. In addition, only one signature was required on checks. Adequate segregation of duties would prevent the same person from having a significant role in the processing, recording, and reporting of receipts and disbursements. We recommend the following procedures to establish controls to offset or mitigate the lack of adequate segregation of duties.

- Daily receipts reconciled to daily checkout sheet by a person who has no access to accounting records and does not make deposits.
- Recording of receipts and disbursements ledgers by an individual who does not make deposits or sign checks.
- Two signatures should be required on all checks, with one being the Sheriff.
- Bank reconciliations should be agreed to the receipts and disbursements ledgers monthly by an individual who has no access to accounting records and makes no deposits.

*Sheriff's Response: None.*

